

UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration
Washington 25, D. C.

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September 16, 1947

To : All REA Borrowers

From : Jos. F. Marion, Chief, Finance Division

✓ Subject: Questions and Answers on Important Phases of REA Accounting

For your information and guidance, we are attaching hereto a compilation of questions and answers on the important phases of REA accounting, prepared as of August 1, 1947.

Jos. F. Marion

Attachment

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QUESTIONS AND ANSWERS

on

IMPORTANT PHASES OF REA ACCOUNTING

Prepared by:
Finance Division
Rural Electrification Administration
✓ U. S. Department of Agriculture
as of August 1, 1947

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SECTION I

LOAN FUND ACCOUNTING

1. (Q) Should payments of interest and principal due be withheld if billing statements have not been received from REA by the due date?

(A) No. Borrowers are required to remit payments at such periodic intervals as are designated in the mortgage note, regardless of whether a billing statement is furnished. Notes executed prior to the Pace Act provide for monthly payments, but that provision is superseded by the quarterly payment plan.
2. (Q) What has been the effect of the Pace Act on REA loan-fund accounting?

(A) It reduced the Government interest rate to two percent and made it advisable for all outstanding mortgage notes to be revised with reference to the amortization requirements thereon. Until such time as the notes may be rewritten, REA will continue to compute billings by determining the amount according to the procedure in effect before the passage of the Pace Act, and then deducting the total of the current interest saving which results from the lowered interest rate.
3. (Q) What is the most common type of error made by bookkeepers in computing amortization requirements for a month or quarter?

(A) Failure to determine the exact amount on which regular amortization payments are computed. For most of the old notes, this is the total of unrepaid advances to the end of the 48th month after the date of the note, plus the total deferred interest accumulated to the end of the 30th month and remaining unpaid at the basis date (end of the 48th month). Advance (cushion of credit) payments are not generally considered in determining the amortization basis.
4. (Q) Are advance (cushion of credit) payments a good investment for an REA borrower?

(A) Unquestionably, yes. Interest stops on the amount remitted as of the day the payment is reported to REA, and such amounts may be used in lieu of due amounts at a later date.
5. (Q) If principal and interest amounts are overdue and borrower sends in only partial remittance, how is application made by REA?

(A) a. All current interest due is credited.

- b. Any remaining amounts are credited against accumulated interest to the extent due.
- c. Any remaining amounts are credited against principal.
6. (Q) If all of the amount covered by the "A" section note is not used when work is begun on the "B" section, what happens to this unadvanced amount?
- (A) REA makes advances against oldest money available. Thus, when work begins on the "B" section, the advances will first be made out of remaining funds on the "A" section. An exception to this is in the case of generating, transmission, and acquisition notes, wherein advances are made directly against notes for these purposes. The REA sends a transmittal slip with each check covering advance, indicating the note against which the advance was made.
7. (Q) When should borrower mail check covering remittance for amounts of principal and interest due?
- (A) Not later than seven days in advance of the due date. Borrowers in the Far West might well allow nine days to assure credit on the due date.
8. (Q) If borrower believes amount indicated on billing statement is in error, what action should be taken?
- (A) Remit amount on statement, Send letter setting forth differences to the Finance Division, REA. Any substantiated errors will be corrected on a subsequent billing statement.
9. (Q) On notes written prior to the date of the Pace Act, does the accumulated interest accrue for 30 months after the date of the first advance or 30 months after the date of the note?
- (A) Accumulated interest starts accruing the day after date on which the first advance is made and accumulates to a date 30 months after the date of the note.

SECTION II

REQUISITIONING AND DEPOSITING REA LOAN FUNDS AND

ACCEPTABLE RECEIPTS

1. (Q) What particular precautions should be taken by the borrower before submitting requisitions and expenditure statements to REA?
 - (A) a. See that Form FI-40, "Voucher for Payment Under Construction Loan Contract," accompanies the requisition, is fully and accurately completed, without erasures or strikeouts, and is signed by an authorized official. The exact corporate name of the bank and the town in which located must be inserted in the proper place on the voucher.
 - b. Ascertain that the requisition and expenditure statement are accurately prepared and signed by authorized officials, and that the requisition bears the corporate seal, stamped in the proper place.
2. (Q) Must the voucher accompanying a request for funds contain an impression of the corporate seal?
 - (A) No. The voucher must be signed by the president or treasurer of the cooperative or by other officer if he has been authorized to sign by board resolution. The requisition should bear the corporate seal on the reverse side and be signed by the president and/or the secretary-treasurer, unless some other officer has been authorized by board action.
3. (Q) Why is it important that the corporate seal be impressed on the requisition?
 - (A) It is a requirement of the General Accounting Office that the impression of the corporate seal be placed on the financial requirement statement. Care should be exercised that this be done before the requisition leaves the borrower's office; otherwise, it is necessary to return the papers to the borrower and to hold up the release of the funds pending their return to REA.
4. (Q) May public vouchers for advance of funds be signed with pencil?
 - (A) No. They should always be signed with blue or black ink. The name of the signer should be typed in on the yellow or pink copies and on the original below "signature" line. Be sure to show borrower's correct name and the title of person signing; also, the correct mailing address.

5. (Q) Should all banks used as depositories be approved by REA?

(A) Yes. It is a requirement of the loan contract.

6. (Q) How should depositories be designated and REA approval obtained?

(A) The board of directors should designate the depositories by means of a resolution. In requesting REA approval of a new depository, the manager should submit to the Finance Division a copy of the latest call report of the bank in question, together with a certified copy of the board resolution.

If the bank is a state bank, the call for statements of condition is made by the Commissioner of Banks or the Superintendent of Banks, as the case might be. If it is a national bank, it is subject to the call of the Comptroller of Currency of the U.S. In all instances, the bank is required to publish in one of the local newspapers the information included in the call report.

7. (Q) Are the funds in each account covered by the federal deposit insurance?

(A) No. The insurance coverage for each depositor in any one bank is limited to \$5,000.00 regardless of how many different accounts the depositor may have.

8. (Q) Is it necessary to secure approval of REA for banks used as collection agencies only?

(A) All banks appointed to act as collecting agencies should be members of the Federal Deposit Insurance Corporation. However, unless collections exceed \$2,500.00 before remittance to the REA borrower, it is unnecessary to secure REA approval.

9. (Q) Should a receipt be written in pencil or ink?

(A) To insure permanency the receipt should be written in ink, as pencil does not make a permanent record.

10. (Q) What details should be shown on receipts for right-of-way salary and mileage?

(A) Type of service, the dates, number of days and hours worked, rate, number of miles traveled and rate per mile.

11. (Q) Should receipts for payments to contractors and engineers show the section of line to which the payments apply.

(A) Yes.

12. (Q) What are the specific REA requirements concerning receipts for:
- a. Legal fees?
 - b. Legal expenses?
- (A)
- a. Receipts for legal fees should identify the loan which financed the work requiring legal services. They must also contain precise information as to the service rendered. Evidence similar to that presented in the case of payments to contractors and engineers should be listed on the legal receipt to show that the work was accomplished.
 - b. Receipts for legal expenses must state the nature and purpose of the original disbursement. If the receipt covers reimbursement to the attorney for such items as hotel bills, telephone calls, recording fees, etc., the original receipts issued to the attorney should be submitted in all instances in which it is practicable to do so. Reimbursement to the attorney or others for travel expense incurred must result in the submission of the same type of data on mileage, dates and purpose of travel, etc., as is required in the case of reimbursing travel performed by the borrower's personnel or board members.
13. (Q) What type of receipt is acceptable for disbursements to construction contractor?
- (A) Original copy of contractor's statement of units installed, with receipt of payment and approval of engineer noted thereon. Receipt for the final 10 percent can be in a lump sum, with no detail shown, except when the contract contains an escalator clause. Price changes resulting from this clause should be detailed and certified to by the contractor.
14. (Q) What type of receipt is acceptable for wages and salaries?
- (A) Payroll receipts must show the following detail:
- Date of payment
 - Check number
 - Receipt number
 - Account charged
 - Title of employee
 - Period covered by salary or wages
 - Rate of pay
 - Amount of gross salary
 - Deductions for social security and withholding taxes, or a statement that such taxes have been deducted from General Fund salary checks
 - Description of work performed
- Receipts for labor on construction to be evidenced by a force account inventory should be marked in such manner as to distinguish them from receipts for labor on regular work order inventories.

15. (Q) What type of receipt is acceptable for disbursements to service entrance contractor?

(A) Original invoices containing the following detail:

- Date work completed
- Date paid
- Member's name
- Type of entrance
- Contract unit price
- Extra cable cost
- Total entrance price
- Acknowledgment of receipt of money

16. (Q) Will REA approve per diem allowances in lieu of strict item-by-item accounting for expenses other than mileage or rail travel on trips or on construction work away from the office where employee must stay over night?

(A) Such per diem allowances may be approved. It would be advisable for the board of directors to adopt a resolution establishing its policy regarding payments of the per diem allowances.

17. (Q) What type of receipt is acceptable for directors' fees and mileage?

(A) Receipt from each director showing the following detail:

- Date of meeting
- Date of payment
- Amount of fee (should not exceed \$3.00 per meeting)
- Number of miles traveled in his personal car and rate per mile
- Total of fee and mileage

SECTION III

CONSTRUCTION ACCOUNTING

A. LABOR AND MATERIAL CONTRACT

1. (Q) What type of accounting should be carried out with relation to the purchase of material and its resale to a contractor?
 - (A) The cooperative acts as a supplier in this relationship and should maintain accounts suitable for a supplier. The materials should be paid for from REA construction funds and charged to a subaccount of Account 131.1, and they should be stored separately from normal inventory materials.

Stock record cards should be established and as the materials are turned over to the contractor they should be charged at invoice prices to a subaccount of Account 125.3 and a receipt should be secured from the contractor. When the contractor submits an invoice for work completed, it should be paid in full (except for the 10% withheld) for both material and labor out of REA construction funds and the clearing account, Account 100.31, should be charged with the payment. Secure at the same time a check from the contractor for all materials turned over to him to date. Deposit the contractor's check in the account for REA construction funds and credit the subaccount of Account 125.3.

2. (Q) How are transformers handled which are to be sold to the contractor?
 - (A) When transformers are bought for resale to the contractor, mark your group purchase orders to indicate this fact. They will then be established in Budget. Such transformers should be capitalized when purchased and charged to a subaccount of Account 358. When turned over to the contractor, they should be cleared from the 358 subaccount to the 125.3 subaccount.

B. LABOR -ONLY CONTRACT

1. (Q) Should the contractor include in his monthly statements the materials erected in place or just the labor?
 - (A) The contractor should render a monthly statement for labor only.
2. (Q) Should the cooperative withhold 10% when paying each invoice of the contractor under Engineering Memorandum No. 170?
 - (A) Yes.

3. (Q) Are the costs and charges in connection with unloading poles included in the invoice price when released to the contractor?
- (A) No. As pointed out in SL-17, all material will be priced at invoice prices, which include freight charges.
4. (Q) What account is charged for the material turned over to the contractor?
- (A) A subaccount of Account 100.31.
5. (Q) What accounting treatment is recommended for transformers in connection with a labor-only contract?
- (A) Transformers should be charged to Account 358 when purchased and should remain in that account. On the contractor's final inventory of construction in place the installed cost of transformers will be shown, and the cost of the transformers themselves must be deducted in distributing the inventory to the plant accounts.

C. FORCE ACCOUNT

1. (Q) Should a clear-cut distinction be maintained throughout all the records between force account construction and work order construction?
- (A) Yes. It is recommended that all construction directly related to REA allocations based upon a signup of specific consumers be accounted for as a unit, without mingling with other construction projects or with member service extensions. Subaccounts of Account 100.32 should be used to segregate the costs of the two types of construction.
2. (Q) May force account construction be evidenced by means of work order forms?
- (A) Yes. It is preferred, however, that such work order be prepared on completion of construction of a force account project and be submitted as a single inventory, instead of on a monthly basis.

3. (Q) How are funds for overhead in connection with force account construction to be made available?

(A) Estimated overhead costs should be computed as a percentage of the direct labor cost and Engineering Division requested to authorize a budget item to cover both labor and overhead costs.

D. WORK ORDERS AND ACCOUNTING FOR MATERIAL

1. (Q) What is meant by the term "perpetual inventory"?

(A) A perpetual inventory is the system of control of materials and supplies in stock by which the number of units and value of any type of material on hand or the total amount and value of all materials in stock may be determined at any time.

This system requires the recording on individual stock record cards of all receipts and disbursements of material and making the extension of balances on hand into the balance column. The entries to Account 131.1 should reflect the total of the entries to the individual cards and the balance of the ledger account should be in agreement with the total values shown by the stock record cards as of the end of any month.

2. (Q) When are the postings made to the stock record cards from invoices for materials received?

(A) It is not advisable to make such postings until the material has been checked into the stockroom and the charge has been made to Account 131.1 in the general journal or cash disbursement record. The stock record clerk should be certain that the amounts recorded as cost of materials on the stock cards agree in total with the amounts recorded by the bookkeeper in the materials and supplies account in the general ledger. The most effective method of assuring this is for the bookkeeper to supply an extra copy of an invoice covering the materials purchased to the stock record clerk, to be used by him for posting, showing the amount charged by the bookkeeper to the materials and supplies account. The stock record clerk can verify the total of all invoices received monthly with the charges to the ledger account.

3. (Q) Why is it not advisable to make the postings to the stock cards as soon as the material has been received and checked with the invoice?

3. (A) It must be determined before the posting is made whether advantage will be taken of the discount provisions on the invoice. Also discrepancies are more easily resolved if the cards and general ledger both receive postings at the end of the month.
4. (Q) When are materials returned to the stockroom from retirements, and materials used during the month, posted to the stock cards?
- (A) These postings should be made as of the end of the month from the Summary of Material Items Used and Retired.
5. (Q) Is there any objection to making such postings on a daily basis from the Material - Job Charge Tickets and Material - Job Credit Tickets?
- (A) Such postings may be made daily; however, it saves a considerable amount of time if such postings are made only from the monthly summary, as well as providing better control.
6. (Q) How are postings made to the stock cards for materials sold?
- (A) The posting should be made from the sales invoice at the time the material leaves the stockroom. Invoices for materials sold are not to be summarized on the Summary of Material Items Used and Retired form, unless a copy of such form is used specifically for that purpose and that alone.
7. (Q) How is material which is not usable recorded on the stock record card?
- (A) A stock record card may be carried with the description of the item as "Junk" or "Unusable Material." Only one stock card need be maintained for recording all unusable material. When the material is sold as scrap, the amount received would be shown as a credit on the stock card.
8. (Q) How often should the "average unit price" on the stock card be calculated?
- (A) The average unit price should be determined at the end of each month after all postings have been made to the stock cards and the quantity and value of each type of material determined. This unit price should then be used in all pricing of material for the following month.
9. (Q) How should materials loaned to other cooperatives be handled?
- (A) A sales invoice should be prepared, itemizing the materials loaned, and priced at current average prices. The amount should be set up as an accounts receivable and the details posted to the stock cards. When the materials are returned, a credit

invoice should be prepared crediting the accounts receivable account and the detail of the items should be posted to the stock cards at the same prices at which the materials were loaned.

10. (Q) What is a physical inventory and how often should it be taken?
- (A) A physical inventory is the actual counting of all material items in stock, wherever located, the listing of the items by name and number on hand, and pricing at the average stock price. It is advisable that a physical inventory be taken quarterly, semiannually or annually, depending upon the size of the adjustment usually necessary for reconciliation after an inventory. If such adjustments average only about two percent of the dollar amount of total material transactions for the quarter, not counting purchases, adequate accounting control is being maintained to dispense with quarterly inventories.
11. (Q) What is the purpose of a physical inventory?
- (A) The purpose of a physical inventory is to check the accuracy of the material on hand with the amounts shown on the stock record cards and to verify the balance in Account 131.1. It also tests the accuracy of the methods used in accounting for material charged to stock and taken from stock.
12. (Q) What should be done with the physical inventory list?
- (A) The physical inventory list should be placed in a file for reference by the borrower and the auditors. When important differences exist between the quantities shown on the stock cards and the verified extensions of the physical inventory, a recount of the items should be made for final verification of the accuracy of the physical inventory. The stock cards should be adjusted to the physical inventory and Account 131.1 adjusted so that all three records are in agreement. The causes of the differences should be determined by checking the material charge and credit slips, purchase records, etc.
13. (Q) What accounts should be used for recording these adjustments in the general ledger?
- (A) If it can be determined how the discrepancies arose, the maintenance, operation, work in progress, or other accounts involved should be charged or credited, as necessary; otherwise, Accounts 146.2 and 242.22 (both entitled "Materials and Supplies, Electric - Suspense") should be charged or credited with the difference until determination of its origin can be made or the board of directors approves writing it off. Of course, Account 131.1 is to be brought into agreement with the cards and physical inventory total by means of these entries.

14. (Q) How should overtime hours be charged on the Daily Work Report?

(A) If it is the policy of the borrower to charge overtime daily for work in excess of the regular required hours of work, such overtime may be charged to the operation on which the overtime work was performed, or it may be prorated over the various operations for that day. If overtime is charged only after the 40 hours for the week have been worked, then the overtime costs should be charged to the operation on which they occurred. A third method is to defer determination until the end of the month and distribute on the basis of actual hours worked.

15. (Q) How should the miles driven by the trucks be charged?

(A) The truck mileage should be allocated to each operation for the day on the basis of hours worked by the drivers. The individual or average rate per mile is applied to determine the cost charged to each operation.

16. (Q) Since the Employee's Semi-Monthly Time Sheet may be used for weekly as well as semi-monthly pay periods (according to Page 16 of the manual), should a separate time sheet be used for each partial calendar week included in any calendar month?

(A) No. A separate time sheet should not be used for a portion of a week. If at the end of an accounting period part of a week's salaries is accrued, the accrued portion may be set up on the books and posted to the Individual Work Order Cost Sheet.

17. (Q) When transformers and meters are reset on a work order, should not the cost of the labor be shown in Accounts 761 and 762 on the Daily Work Report? The sample sheet in the manual does not so indicate, even though used meters and transformers were included in the work order constituting the example.

(A) The sample Daily Work Report should have shown such labor costs charged to Accounts 761 and 762. The proper procedure is set forth in the last paragraph in Section C on Page 15 of the manual.

18. (Q) If a truck is driven by two or more employees during the course of a day, is the mileage to be distributed on the basis of the first driver's total time for the day?

(A) No. The mileage should be distributed on the basis of the time each driver was assigned to the truck and the type of work he did while so assigned.

19. (Q) May the average rate per mile for all trucks, as shown on the Summary and Distribution of Transportation Costs, be used in charging transportation costs to work orders?

(A) The average rate may be used.

20. (Q) Since meters and transformers are capitalized when purchased, why is it necessary to show them on the Material - Job Charge Ticket?
- (A) Meter and transformer cards should be segregated between those for meters and transformers in service and those for such equipment not in service. The job charge or credit ticket on which a meter or transformer appears would become the medium for transferring a meter or transformer card to the active file from the group filed separately as representing those meters and transformers held in the warehouse. Another reason for including meters and transformers on the job charge and credit tickets is to permit posting to the work order cost sheet all elements of cost of the construction involved.
21. (Q) What is the purpose of the Individual Work Order Cost Sheet?
- (A) It replaces the old individual work order and becomes a permanent record of the cost of each job. These sheets should be filed as a permanent record.
22. (Q) When the construction of an extension covers more than one month, how are the costs recorded on the cost sheet?
- (A) It is preferable to use a separate cost sheet for each month since the form is not readily adaptable to the recording of several months' costs on the form.
23. (Q) How do you account for the installation of transformers and meters?
- (A) Cost of installation is recorded when transformers and meters are installed on the line for the first time. (The cost of removing and resetting of transformers and meters is an operations expense.)
24. (Q) Is a transformer which is removed from the line because of non-use retired if it is in good condition?
- (A). No.
25. (Q) If a meter is burned beyond repair what is the accounting procedure?
- (A) The form, Analysis of Original Cost of Property Retired, is prepared showing the installed cost and the overhead capitalized, if any. An individual work order cost sheet is prepared showing the labor and overhead costs incurred in the removal. It is included in the Inventory of Retirement Work Orders. In the general ledger, the transaction is recorded in Account 144, Retirement Work in Progress. The account is debited with the installed cost of the meter plus overhead capitalized, and

labor and overhead incurred in the removal. There being no salvage value, the total amount is closed to Account 250.5, Reserve for Depreciation of Distribution Plant. Of course, Account 360 is credited in the first entry with the original installed cost plus overhead, if any.

26. (Q) How do you account for salvaged material removed from the line?

(A) Account 131.1, Materials and Supplies--Electric, is charged with the stock card prices of the material and Account 144, Retirement Work in Progress, is credited if it applies to major units of property. When materials are salvaged from the line in connection with a minor item of property, the credit is made to the appropriate maintenance account.

27. (Q) In retiring a transformer, it is determined to have an estimated salvage value. Is it proper to credit Account 144 with this value and debit Account 131.1, Materials and Supplies - Electric, since transformers are not charged to the latter account when purchased?

(A) This procedure is proper since only usable transformers are carried in Account 358, Line Transformers, and no account is provided for salvage value of transformers. The amount of the estimated salvage value would be posted to the "Junk" stock card. Retirement work orders are necessary in cases of this type.

28. (Q) Is it necessary permanently to maintain the completed forms after the information has been posted to the cost sheets?

(A) Yes. It is necessary to preserve these records for auditing purposes.

29. (Q) Since the retirement and replacement of a property unit such as a pole or a thousand feet of conductor requires a retirement and construction work order, does the same procedure apply to the retirement and replacement of any item smaller than a unit of property, such as 800 feet of wire, for example?

(A) No. Retirement and construction work orders should not be prepared for a retirement and replacement of items smaller than a unit of property. The charge should be to maintenance expense.

30. (Q) Should the installation of a new meter or transformer be shown on an individual construction work order when no other construction is reflected?

(A) One blanket work order should be prepared each month, recording all installations of meters or transformers, when no other construction was reflected. This work order should be tied in with the individual work orders which evidence the extensions, by listing on this blanket work order all of the individual work orders involved.

31. (Q) Should replacement of poles be covered by construction and retirement work orders or should this be charged to maintenance?
- (A) Replacements of poles (or any other units of property) should be treated as additions of the new items and retirements of the old items, thus requiring construction and retirement work orders.
32. (Q) Are construction and retirement work orders necessary in connection with relocation of lines?
- (A) All moving of line for any reason is to be handled through construction and retirement work orders, unless there is no change of line assemblies between the original and the relocated lines, except that as a line is moved because of road widening with a change only of assemblies at each end of the relocation, construction and retirement work orders should be prepared for those changes and the remaining cost of the relocation charged to maintenance.
33. (Q) Since work orders are frequently made up without including meters, may work orders be prepared and approved without transformers being shown?
- (A) Yes, provided the work orders bear a notation as to the reason transformers do not appear thereon. This procedure will permit the advance of funds to cover completed extensions when it is not possible to hang transformers for some time. The transformers, of course, must be installed by means of subsequent individual or blanket work orders.
34. (Q) How are line replacement items handled in the books of account, and also with reference to loan-fund accounting?
- (A) The installed cost of replacement units represents an asset value and should be included on work orders or inventories so that it may be distributed to the plant accounts. (Replacement units are defined in Appendix B of the manual entitled "Depreciation Procedure as Applied to REA-financed Systems.") The unit being replaced is shown on a retirement work order and its installed cost, less salvage, plus the cost of retirement is ultimately charged to the reserve for depreciation. The plant accounts are credited with the installed cost.

If the unit being retired has salvage value, that value will appear on the retirement work order and will automatically be deducted by REA from subsequent advances made on work orders. For that reason, the replacement work order will be treated by REA just as any other construction work order.

If, on the other hand, the retired unit has no salvage value, there is nothing on the retirement work order for deduction from future

advances. Consequently, if REA then advanced funds on the basis of the replacement work order, two complete advances would be outstanding for the same existing construction. To eliminate this possibility, the construction replacing the retired units having no salvage value should be indicated as replacement construction, for loan-fund purposes.

The revised work order procedure provides a method of indicating on the staking sheet those units replacing items having no salvage value. These items are then included in the Analysis of Replaced Units on the back of the Individual Work Order Cost Sheet for construction work orders and brought forward to the front to be used in the "Summary of Advances Required" on the cost sheet. The installed cost of the replacement units is eventually reflected among the "advances not required" on the Inventory of Construction Work Orders.

It is the policy of REA to advance funds only for original construction and the purchase of original equipment. When items of plant are replaced, the cost should be borne by the General Fund.

SECTION IV

DAY BY DAY BOOKKEEPING

1. (Q) What accounting treatment should be made of the costs of sectionalizing and system engineering studies subsequent to date of energization.
 - (A) These costs should be charged to a subaccount of Account 146, Deferred Debits, until it is determined whether the study will result in more efficient operation or in new construction, or neither. If additional construction results, the study costs should be spread as overhead over the construction costs. If the study is for operating purposes or has no apparent beneficial effect, the charge should be cleared from Account 146 to Account 761, Operation of Lines, either in a single entry or in monthly write-offs over a period of five years or less.
2. (Q) Please explain the use of Accounts:
 - a. 229.1
 - b. 536
 - (A) a. As you know, Account 213.3, Interest Accrued-Deferred--REA Construction, now is used instead of Account 229.4 to accrue the liability for interest which is to be charged on the books but not paid to REA until the end of the "accumulating" period (30 months on old notes; 24 or 60 months on notes written since adoption of the Pace Act). Account 229.1, Interest Accrued--REA Construction Obligation, is used after the end of the "accumulating" period to accrue current interest which is charged on the books monthly but not paid until the third month (when billing statement is received). The three months' accrual is then cleared out by a debit to Account 229.1 and a credit to the cash or fund account from which payment is made.
 - b. All interest on construction loans is to be charged to Account 530.1, Interest on REA Construction Loan, as it is credited to Account 213.3 (during the "accumulating" period) or to Account 229.1 (when it is accrued for payment at the end of the quarter). Any portion of such interest which is properly applicable to construction should be charged in an additional separate entry each month to the appropriate construction clearing account and credited to Account 536, Interest Charged to Construction--Credit. The balance in this last-named account always acts as an offset to the balance in Account 530.1, the difference between them representing the net amount of interest expensed.

3. (Q) What is the proper accounting treatment for purchase and sale of resale materials in order to determine exact net revenue received from such transactions?

(A) Charge Account 131.2, Materials and Supplies--Resale, with purchases. Set up perpetual inventory cards to show current prices at all times. As sales are made, charge Account 520.2, Merchandising Revenue Deductions, with:

- a. Cost of materials sold.
- b. Transportation, storage, handling.
- c. Taxes applicable to sales.
- d. Discounts or allowances given.
- e. Insurance.
- f. Loss from uncollectible accounts.
- g. Pay and expense of employees engaged in clerical work, bookkeeping, sales, delivery, installation, collection of bills, etc., in connection with merchandising.

Credit Account 131.2 with the cost of Materials as they are charged to Account 520.2. Debit Account 120.1, Cash-General or Account 125.2, Other Accounts Receivable (as terms of the sales require), with the selling price of the merchandise and credit Account 520.1, Revenue from Merchandising Sales. At the end of the accounting period, the excess balance (if any) of Account 520.1 over Account 520.2 will represent the true net income realized on the transactions.

4. (Q) a. How do you reconcile accounts receivable?
b. If out of balance, what steps are necessary to locate errors?

(A) a. The total of outstanding balances shown in the consumers' ledger should equal the balance shown in the general ledger account 125.1--Accounts Receivable-Electric Consumers.
b. The total collections per the consumers' ledger should agree with the total collections shown in the cash book. The total sales per the consumers' ledger should agree with the sales recorded in the general ledger account. The total adjustments to the consumers' ledger should agree with the adjusting entries recorded in the general ledger account.

5. (Q) How do you reconcile cash with bank statements?

(A) The bank balance reflected on the monthly bank statement less outstanding checks, plus any deposits in transit at the end of the month, should reconcile the cash with the general ledger cash account. Consideration should be given to possible differences between entries on the bank statements and those in the cooperative's books.

6. (Q) Give procedure for reimbursing the petty cash fund.

(A) After the petty cash fund has been established, the reimbursement check is drawn for actual expenditures made from the fund. These

disbursements are charged to the appropriate expense or other accounts affected. A check in favor of the cooperative should be drawn and recorded every month, reimbursing the petty cash fund.

7. (Q) How do you reconcile general ledger control accounts with principal and interest statements?
- (A) The unpaid loan balance shown on the interest and principal statement plus the unapplied payments should agree with Account 213.1, Long-Term-Debt-REA Construction. The balance shown in the accumulated interest bracket on the billing statement should agree with Account 213.3, Interest Accrued--Deferred--REA Construction, after the present payment due (if any) has been deducted from the account. Advance payments to REA recorded in Account 134, Unapplied Payments--Long Term-Debt, are shown as credits on the billing statement in the principal bracket.
8. (Q) How do you reconcile general ledger accounts with:
- a. Accounts receivable-other?
b. Notes receivable?
c. Accounts payable?
- (A) a. A subsidiary ledger should be maintained on consumers' accounts for other than energy sales. The total of outstanding balances in this record should agree with the balance of Account 125.2, Other Accounts Receivable.
b. Total of outstanding balances in the notes receivable subsidiary record should agree with the balance of Account 124--Notes Receivable.
c. The open balances shown on the Accounts Payable Register or other subsidiary record should agree with the balance of Account 222-Accounts Payable.
9. (Q) Give procedure for writing off expired insurance premiums on:
- a. Workmen's compensation.
b. Public liability and property damage.
c. Position bond.
d. Material and supplies.
- (A) a. The monthly payroll (at straight time times total hours worked) is multiplied by the rate given in the workmen's compensation insurance policy to obtain the expired monthly insurance premium on the policy. This amount should be distributed in accordance with the distribution of payroll as between construction and operating expense. The portion applicable to operations is charged to Account 799, Injuries and Damages.
b. Public liability and property damage insurance is computed on a payroll basis: monthly payroll times the rate given in the policy and classified in accordance with the payroll distribution between construction and operation. All write-offs of insurance premiums are credited to Account 132.1-Prepayments--Insurance. Should the premium on workmen's compensation and public liability and property damage insurance become exhausted before the

expiration date of the policy, the monthly accrual is charged to the appropriate expense or construction account and credited to Account 230.4, Accrued Insurance. If the minimum premium shown in the policy is greater than that calculated on the actual payroll, the straight-line method of 1/12 each month should be applied.

- c. This premium is prorated over a 12-month period and is charged to Account 798.
- d. The annual premium is prorated over a 12-month period and is charged to Account 798, or to a work in progress account if the materials are being held for construction of a section.

10. (Q) Give procedure to record consumers' penalties.

- (A) Penalties may be handled on a cash basis, and credited to Account 612, Consumers' Forfeited Discounts and Penalties, direct from the cash receipts record. The period billed will indicate to the cashier whether the consumer is liable for penalty for late payment. Under this procedure, no charge is made to the consumer's account at the expiration of the collection period. Penalties may also be handled on an accrual basis, as follows, which is the recommended procedure: At the expiration of the collection period, the penalty is recorded on all unpaid accounts in the consumers' ledger. The total amount is recorded as a debit to Account 125.1, Accounts Receivable-Electric Consumers, and credited to Account 612, Consumers' Forfeited Discounts and Penalties.

11. (Q) a. To what account do you charge depreciation on trucks?
b. What account is credited?

- (A) a. Account 903, Transportation Expense-Clearing
b. Account 250.6, Reserve for Depreciation of General Plant.

12. (Q) If a transformer burns out and is returned to the factory for restoration, is the cost a charge to operations, maintenance, or to the plant account for transformers?

- (A) Maintenance.

13. (Q) If a line is damaged by storm, is the cost of restoration charged to operations, maintenance, or construction?

- (A) Maintenance.

14. (Q) If a cooperative has a tractor with pole-hole digger attached and rents it to a contractor, where should the revenue be credited?

- (A) To Account 610, Rent from Electric Property.

15. (Q) If a truck which has been fully depreciated on the books is to be sold, should the Administrator's approval be obtained and should the same general procedure on the disposition of the proceeds apply as would be the case if the property had book value?

- (A) Yes, on both points.

16. (Q) What is the proper accounting for the cost of moving an office building to a new location as a result of highway widening?
- (A) If the cost is substantial it should be charged to Account 146, Other Deferred Debits, and written off monthly over an appropriate period to Account 801.4, Miscellaneous General Expenses. If the change in location actually increased the value of the property, the cost should be charged to Account 371, Structures and Improvements.
17. (Q) If an old building is bought for use as an office building, is the cost of the first painting charged to capital or expense?
- (A) It should be charged as a capital item to Account 371, Structures and Improvements, since it represents a definite addition to the asset value.
18. (Q) Should the cost of freight on material be included as part of the cost of material in establishing prices?
- (A) Yes. However, any such costs not readily allocable to the material costs concerned may be charged to Account 902, Stores Expense-Clearing.
19. (Q) Are membership fees always considered a part of net worth, or, in the case of a new section when the cooperative is not sure it is going to build to a prospective applicant, are they considered liabilities?
- (A) Membership fees are usually considered as part of net worth until such time as the directors conclude that the member-applicant will not be furnished service; at that time the fee is usually refundable and becomes a liability.
20. (Q) To what account is the cost of membership in a State safety and job-training association charged?
- (A) The cost of membership in this association should be charged to Account 800, Employees' Welfare Expenses and Insurance.
21. (Q) To what account are grease racks and similar items of a permanent nature for servicing the cooperative's transportation equipment charged?
- (A) Account 373, Transportation Equipment.
22. (Q) If additional insurance is necessary to cover a stock of appliances purchased for resale, to what account should the monthly cost be charged?
- (A) Account 520.2, Merchandising Revenue Deductions. This account should be charged with all costs and expenses incurred on account of sales of appliances, including a portion of the employees' time spent in selling activities.
23. (Q) To what account is charged the cost of travel and living expenses incurred by board members in attending meetings on behalf of the cooperative's operations?

- (A) As pointed out in the 1947 manual of accounts, all such costs are chargeable to Account 801.1, Directors' Fees and Mileage, together with fees and mileage for attendance at board meetings, except costs of formal cases or hearings before regulatory bodies, which are charged to Account 797, Regulatory Commission Expenses.

24. (Q) What is the proper accounting treatment for the purchase and operation of mobile generating units?

- (A)
- a. Charge the actual amounts paid for the generating units and all spare parts to Account 333, Internal Combustion Engines. When you purchase a trailer on which to mount a generating unit, the trailer becomes a part of the portable unit and, as such, should be charged to Account 333 also. The depreciation of the whole unit, including the trailer, should be charged at the rate of ten percent per annum. This depreciation would apply whether the unit is in use or not, since deterioration of such equipment is not directly related to use.
 - b. The cost of the large transformers to be used in conjunction with the generating units should be charged to Account 352, Station and Storage Battery Equipment.
 - c. The installation of the generating unit and the transformers should be recorded on the work order form, modified to suit the situation. The installation costs of the generating units should be charged to Account 333 and those of the transformers to Account 352.
 - d. The question of obtaining REA loan funds to cover the purchase and installation of the generating units and transformers should be taken up with the Management Division.
 - e. All expenses of the units from the start of operation are to be charged to the proper expense accounts for internal combustion engine power. The handling of the major expense items may be outlined as follows:
 - a. Fuel oil -- Account 729, Engine Fuel
 - b. Lubricating oil -- Account 730.2, Lubricants
 - c. Repairs to units -- Account 734, Maintenance of Generating and Electric Equipment
 - d. Operating labor costs -- Subaccounts of Account 728, Station Labor
 - f. Depreciation should be computed monthly on the generating units at 10% per annum, as mentioned above, and on the transformers at 3.48% per annum. The former should be charged to Account 503.3, Depreciation of Internal Combustion Engine Plant and credited to Account 250.3, Reserve for Depreciation of Internal Combustion Engine Plant. The depreciation charges for the transformers should be treated exactly as in the case of the rest of your distribution plant.
 - g. If a unit is rented to another cooperative the total receipts therefrom should be deposited in the General Fund and credited to Account 610, Rent from Electric Property.

25. (Q) To what accounts should power saws and earth-boring machines be charged, and what rates of depreciation should apply?
- (A) Both power saws and earth-boring machines should be charged to Account 377.2, Tools and Work Equipment--Heavy. All items in this account should be depreciated at the rate of 6% per annum, unless a rate based on hours of use appears to be more equitable.
26. (Q) How should construction and communication equipment attached to trucks be classified and depreciated?
- (A) Heavy construction equipment permanently attached to vehicles so as to make the vehicles practically useless for other transportation should be classified, vehicles and all, under Tools and Work Equipment--Heavy. Construction equipment easily removable from trucks is classified under Tools and Work Equipment and the trucks under Transportation Equipment. Small construction equipment carried on trucks regularly is considered as part of the transportation equipment. Communication equipment is always carried in the separate account therefor, unless it consists of minor items permanently attached to trucks, in which case it becomes part of the transportation equipment. The regular rates of depreciation for the various accounts apply to all items classified in those accounts.
27. (Q) Which is the correct statement of procedure with reference to computing depreciation on office furniture and equipment--that on Page 10 of the Depreciation Procedure Manual, which suggests basing the computation on the balance in Account 372, or that on Page 9 of the same manual, which recommends depreciating individual items of general plant on the basis of unit accountability records?
- (A) Depreciation should be computed on individual units. The instructions on Page 10 should have referred to the "items" in Account 372 rather than to the "balance" of that account.
28. (Q) If employees of a cooperative perform wiring inspections for consumers, how are the expense and income treated on the books?
- (A) The accounts for non-operating expense and revenue should be used to record such items. In order not to distort net non-operating revenue, advance payments of inspection fees may be credited to a deferred account until the work is performed.
29. (Q) Should voltage regulators be installed on the line by means of work orders?
- (A) Voltage regulators should be charged to Account 358, Line Transformers, when purchased. When they are originally placed on the line, the installation costs should be evidenced by work orders.
30. (Q) To what account is the income from sale of scrap material credited?

(A) Account 902, Stores Expense-Clearing.

31. (Q) When an employee makes a maintenance call which is later paid for by the consumer, should Account 903, Transportation Expenses-Clearing be credited for the transportation costs which are reimbursed?

(A) No. Credit the consumer's entire payment to Account 615, Miscellaneous Electric Revenues. Costs of such calls should be charged to the regular maintenance accounts involved.

32. (Q) Where should the cooperative charge the cost of making maps of signed easements on early sections of the line which apparently had not been mapped previously?

(A) There must have been original maps or REA could not have made the loan. Therefore, the present cost must be expensed to Account 801.4, Miscellaneous General Expenses.

33. (Q) If a cooperative makes available an employee to assist a contract engineer in staking and the engineer gives the cooperative credit on the invoice for the job, should the staking wages of the cooperative employee be included in the overhead for that month?

(A) Yes.

34. (Q) To what account should fees paid an attorney or collection agency for collecting delinquent accounts be charged?

(A) (1) Attorney Account 780
(2) Collection Agency Account 780

An attorney may be on a retainer basis in which event the expense (retainer) would be charged to Account 795 - Special Services and under the heading of the retainer would write collection letters--he would thus be performing collection duties. If, however, court costs or additional fees are involved on a collection matter, it is the performance of a collection duty which is the cause of the expense rather than the broader heading legal expenses. The expense should be charged to the department or origin of the expenditure, as this seems to be the intent of the Classification of Accounts.

It is thus possible for legal fees and expenses to be charged to any of several plant accounts and/or Operating Expenses.

35. (Q) To what account are surplus supplies or excess tools and work equipment charged? As an example, 6 axes are listed as a normal work inventory; however, they are purchased in two dozen lots. Also rope, files, etc., are purchased in quantity lots.

(A) Materials and Supplies, Account 131.1, provided the excess axes are actually placed in the warehouse and are not used. When they are issued, they will either be a replacement and expensed or an increase in tool inventory and capitalized.

36. (Q) To what account is the annual corporation tax charged?
- (A) Account 507.7 - Taxes-Other.
37. (Q) When cooperatives service ranges, water heaters, refrigerators, and other appliances for which a charge is made against the consumer, what account should be credited with the revenue? What account should be charged with the expense incurred?
- (A) Revenue is credited to Account 520.1. Expense is debited to Account 520.2.
38. (Q) To what accounts should the labor and expense of keeping and maintaining meter and transformer history and location records be charged?
- (A) For maintaining transformer history and location records, use Account 761 - Operation of Lines. For maintaining meter history and location records use Account 762 - Services on Consumers' Premises.
39. (Q) To what account should wages paid for janitor service be charged?
- (A) Distribution for salaries and wages should be made to the appropriate operating expense account under functional groups so far as is practicable. Such wages as cannot be allocated to a functional group should be charged to Account 791 - Other General Office Salaries. If service is on job or contract basis the expense may be charged to Account 793.
40. (Q) What salaries or wages are chargeable to Account 793 - General Office Supplies and Expenses?
- (A) No salaries should be charged to this account.
41. (Q) To what accounts should the cost of installing a system of continuing property records (Plant Accounting Procedure) be charged? The principal items are as follows:
1. Cost of labor and expenses in making inventory of property.
 2. The time and expenses of bookkeeper in making analysis and studies of financial records.
 3. Cost of making maps to be used in connection with plant records, labor cost involved in spotting poles on maps and other pertinent information.
 4. Cost of ledgers, ledger sheets, card records, etc., (first cost) used in connection with the installation of the record system.
- (Q) The cost of installing continuing property records should be charged to Account 801.4 - Miscellaneous General Expenses, except that the compensation and expenses of regular employees who incidentally work on continuing property records should be charged to the accounts appropriate for the normal functions of such individuals.

42. (Q) What account should be used in Distribution Plant failures, where current goes off for an undue length of time, causing losses of baby chicks and poultry and spoilage of dairy products?
- (A) Claims of this type are usually caused by so-called acts of God, negligence on the part of the system or by voltage conditions. If the losses are not covered by insurance and the Board approves the payment, they are properly chargeable to Account 799 - Injuries and Damages.
43. (Q) A consumer has discontinued service and has not claimed his meter deposit.
- (1) What disposition should be made of the deposit after mailing a notice to his last known address that it was available?
- (2) How long should this unclaimed deposit remain in Account 227 - Consumers' Deposits?
- (A) (1) *When there is no further legal liability to refund such deposit, it should be transferred to the Reserve for Uncollectible Accounts. Complete information should be retained of all particulars pertaining to the transaction.
- (2) Until the legal liability of the cooperative to make such refund has lapsed.
- *Note: Most States have laws governing the disposition of consumers' deposits, in some instances they are to be paid to the State. The system's attorney should be consulted as to the local requirements before making any disposition of the deposit.
44. (Q) Does the Finance Division Memorandum RF-51 dated December 21, 1945, which states that service control equipment should be capitalized in account 360, Meters, supersede Page 35 of the Depreciation Procedure Manual which indicates that "Multibreakers" should be carried in Account 359?
- (A) The revised Manual of Accounts provides that the Services account (359) includes the service entrance. If the organization provides any portion of the service entrance and retains title thereto by written agreement with the property owner, the cost thereof is included in account 359, Services. Memorandum RF 51 is therefore superseded.
45. (Q) To what account should Cash over and short, be credited or charged?
- (A) To account 780, Meter Reading, Accounting, and Collecting.

